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C O N F I D E N T I A L SECTION 01 OF 03 DAMASCUS 000279

SIPDIS

DEPT FOR NEA/ELA, EEB/ESC/TFS; NSC FOR SHAPIRO/MCDERMOTT;
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SUBJECT: BOEING READOUT ON SYRIAN AIR'S DILEMMA

REF: A. 08 DAMASCUS 438

[B. 08 DAMASCUS 599](#)

[C. 08 DAMASCUS 661](#)

[D. 08 DAMASCUS 850](#)

[E. DAMASCUS 188](#)

[F. DAMASCUS 192](#)

Classified By: Charge d'Affaires Maura Connelly for reasons 1.4(b,d)

Summary

[1](#)1. (C) A Boeing sales representative described Syrian Air execs as disappointed that his April 7-8 visit to Damascus did not portend an imminent change in U.S. sanctions law that would allow Syrian Air to purchase new aircraft from Boeing. He said that Syrian Air was confused about the extent of renovations that Boeing's recently-issued export licenses would allow, and was reluctant to invest millions of dollars to only partially overhaul the 33 year-old 747-SPs. If they proceed with the renovations, Syrian Air plans to operate the 747-SPs for five more years, by which time they hope U.S. sanctions will have been amended to allow them to purchase new aircraft. He related airline executives' continuing frustration with Lufthansa Technik of Germany for not re-exporting a Syrian Air Airbus A320 engine, ostensibly due to U.S. sanctions. When asked how Syrian Air intended to pay for a new fleet, execs told Boeing they would seek "outside financing" backed up by "sovereign guarantees." End summary.

Boeing in Syria to "Build Relationships"

[1](#)2. (C) Boeing Commercial Director for the Middle East and Africa Donald Galvanin provided the Charge and Emboffs with a readout of his April 7-8 meetings with officials at Syrian Arab Airlines (Syrian Air). Describing the mission of his visit as "relationship building," Galvanin said that Boeing was concerned about losing a potentially large contract to Airbus -- should sanctions ever be relaxed -- for lack of on-the-ground marketing. He was "all but certain" that Airbus had conducted a fleet planning exercise with Syrian Air that had culminated with the signing of an MOU. He

characterized Syrian Air executives as disappointed that his visit did not portend an imminent change in U.S. sanctions law that would allow the beleaguered airline to purchase new aircraft. Despite their disappointment, he said, they were eager to discuss Syrian Air's intentions for its grounded fleet of two Boeing 747-SPs and six 727s, as well as the airline's longer term hopes for the future.

Differing Opinions on Export Licenses

13. (C) Galvanin identified a misunderstanding between Boeing and Syrian Air over the extent of the renovations that the recently-issued export licenses permit. Boeing officials, he said, believe the "D-check" export licenses cover the complete renovation of each of Syrian Air's two 747-SP aircraft. Galvanin put the value of such renovations at USD 21 million per plane: USD 4 million per engine (USD 16 million per aircraft) plus USD 5 million to overhaul the airframe. Syrian Air, however, interpreted the export licenses as only covering the USD 5 million airframe overhauls and not the engines. Syrian Air was reluctant to invest money in overhauling the airframes if they could not be guaranteed that additional export licenses would be granted to overhaul the engines.

14. (C) Syrian Air officials were also concerned, he said, that the D-check licenses did not include a provision for spare parts. Based on Syrian Air's difficulties in obtaining licenses for spare parts, airline officials did not want to

DAMASCUS 00000279 002 OF 003

make a substantial investment in the jumbo jets only to have them grounded for want of relatively inexpensive spare parts.

Of further concern, Galvanin added, Syrian Air faced limited options for procuring spare parts for the 33 year-old 747-SP models, as Boeing had long ceased producing them and reliable parts were increasingly hard to find on the secondary market.

15. (C) If Syrian Air's concerns about engines and spare parts were addressed, Galvanin said, the airline intended to hire Saudi-based Boeing subsidiary Al-Salaam Aviation to perform the airframe overhauls. The engines, however, would be sent to Lufthansa Technik in Germany. He related Syrian Air's frustrations with Lufthansa Technik for refusing to re-export an Airbus A320 engine due to U.S. sanctions. Syrian Air's technical director confirmed to Galvanin that he had three more Airbus engines in need of maintenance in Germany (as we reported in ref C), but he was afraid to ship them outside of Syria until the export license dilemma over the first engine was resolved.

16. (C) Note: Syrian Air complained to Post in September 2008 that Lufthansa Technik "could not" obtain an export license for the Airbus engine (ref C). FM Muallim raised the issue again with A/S-designate Feltman and NSC Senior Director Shapiro in March 2009 (ref F), after which Commerce/BIS confirmed that Lufthansa Technik had never applied for an export license. Vice FM Faisal Miqdad's Chef de Cabinet Husam Ala'a told Charge on April 6, however, that some part of the delay was related to a payment owed to Lufthansa Technik which, he said, had just been "taken care of." End note.

Syrian Air's Long Term-Plan

17. (C) Syrian Air execs told Galvanin that they intended to operate the 747-SPs for five years -- if the D-checks were completed -- after which time they hoped U.S. sanctions law would have been amended to permit the purchase of new aircraft. In addition to their existing fleet of six A320s (only five of which are operational), the airline wanted to buy a mix of new A320 and A330s, or their respective Boeing

equivalents -- the 737 and 777. Airline officials claimed they faced increasing pressure from the SARG to purchase Russian-made aircraft, which would not be subject to U.S. sanctions, but they much preferred either Airbus or Boeing due to their greater reliability and ease of maintenance. Syrian Air further confirmed its intentions to sell its six 727s for salvage (as Post reported in ref C). Galvanin assessed that the Syrians may have a difficult time finding a buyer for the aging planes, as only a few African countries still operated 727s.

18. (C) Galvanin told us that Boeing analysts estimated Syrian Air's optimal fleet would require a mix of 737s and 777s totaling 20 aircraft, rather than the 50-aircraft deal that Airbus had reportedly offered the Syrians in September 2008. Generally speaking, he said, the asking price for a new 737 is USD 80 million, and USD 200 million for a 777. When asked how Syrian Air intended to pay for 20 new aircraft, Galvanin told us that airline execs said they would use a combination of "outside financing" backed up with "sovereign guarantees." He added that any MOU that Airbus had signed with Syrian Air following Sarkozy's September 2008 visit to Damascus was likely to be non-binding until the airline had actually paid a considerable deposit to reserve space on the manufacturer's production line.

Comment

19. (C) With the exception of FM Muallim's request to A/S-designate Feltman regarding the A320 engine in Germany and the MFA's follow-up on this issue, SARG officials have

DAMASCUS 00000279 003 OF 003

been reluctant to discuss U.S. sanctions and their deleterious effect on Syrian Air. Nor, with a few exceptions, have they broached sanctions in great detail with visiting members of Congress who presumably will have an influential voice over whether sanctions will ever be lifted.

We know from business contacts that the subject is on Syrian minds and is likely to be raised eventually. In the mid- to long-term, Syria's increasing desperation for new commercial aircraft might be leveraged to advance U.S. policy objectives.

110. (C) As a short-term, relatively low-cost option that might help sway the Syrian regime to move forward with a decision on the NEC location site, we believe Washington might consider modifying General Order No. 2, para (c) Licensing Exceptions of the Export Administration Regulations (EAR). When General Order No. 2 was issued in May 2004, it contained no license exception for exporting replacement parts for licensed end-items already in Syria. Consequently, all replacement parts regardless of value must be exported with a separate license -- even a rubber gasket worth USD 0.05 for an emergency room ventilator. Post believes modifying para (c) to set a dollar value threshold for replacement parts below which no license would be required would give the Syrians confidence that their reconditioned 747s would not be soon grounded again pending lengthy export license application procedures for most spare parts. Such a modification would be consistent with A/S-designate Feltman's point to FM Muallim (ref F) that we are not politicizing aviation safety, nor, by extension, health care.
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